

Message Text

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C O N F I D E N T I A L SECTION ONE OF TWO PEKING 0188

E.O. 11652: GDS

TAGS: EIND, EAGR, CH, ETRD

SUBJECT:THE CHINESE ECONOMY IN 1974 AND OUTLOOK FOR 1975 --

IMPRESSIONS FROM PEKING

CINCPAC FOR POLAD

SUMMARY: 1974 WAS NEITHER A GOOD NOR AN ALTOGETHER BAD YEAR FOR THE ECONOMY OF THE PRC. IN THE IMPORTANT AGRICULTURAL SECTOR, GRAIN PRODUCTION REGISTERED A MODEST INCREASE TO SET A NEW RECORD, AND OUTPUT OF OTHER CROPS WAS REASONABLY GOOD; BUT IN INDUSTRY PERFORMANCE

WAS GENERALLY OFF. ALTHOUGH PETROLEUM AGAIN DID WELL, PRC MEDIA CLAIMED FEW PRODUCTION SUCCESSES IN OTHER SECTORS SUCH AS COAL, POWER, IRON AND STEEL OR FERTILIZER. A MAJOR NEW POLITICAL CAMPAIGN SWEEPED THE COUNTRY, WITH AN EFFECT ON INDUSTRY WHICH WAS SOMETIMES ADVERSE AND WHICH ADDED TO PROBLEMS DUE TO LACK OF INVESTMENT WHICH
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HAD EMERGED IN KEY SECTORS. WHEN INDUSTRIAL OUTPUT BEGAN TO LAG, THE

REGIME MOVED TO CURTAIL THE CAMPAIGN AND RESHAPE IT IN THE DIRECTION OF GREATER EMPHASIS ON PRODUCTION, BUT IN OUR VIEW THE MOVE CAME TOO LATE TO KEEP OUTPUT FROM FALLING SHORT OF ANNUAL PRODUCTION TARGETS. IN FOREIGN TRADE, CHINA BROKE ALL PREVIOUS RECORDS LAST YEAR, BUT IMPORTS RAN FAR AHEAD OF EXPORTS AND A YEAR-END DEFICIT OF \$1 BILLION MAY HAVE BEEN INCURRED.

AS WE REPORTED EARLIER, THE PRC PROBABLY ENTERED 1974 BEHIND SCHEDULE WITH REGARD TO FOURTH FIVE YEAR PLAN GOALS. IF SO, WE BELIEVE THAT LITTLE OR NO GROUND WAS MADE UP DURING 1974 AND THAT IT IS NOW TOO LATE TO REACH THOSE GOALS BY THE END OF 1975. NEVERTHELESS, IN ITS NEW YEAR EDITORIAL, THE PEOPLE'S DAILY CALLED FOR "A NEW UPSURGE" IN PRODUCTION, AND IT IS CLEAR THAT A MAJOR "CATCH-UP" EFFORT WILL BE MADE THIS YEAR. BARRING OVER-ZEALOUS IMPLEMENTATION OF SUCH A CAMPAIGN,

THERE SHOULD BE SIGNIFICANT IMPROVEMENT IN INDUSTRIAL OUTPUT THIS YEAR, THOUGH BOTTLENECKS RESULTING FROM INADEQUATE PAST INVESTMENT WILL CONTINUE TO HOLD PRODUCTION BACK. IN AGRICULTURE, STEPPED UP WINTER CAPITAL CONSTRUCTION EFFORTS MAY HAVE SOME POSITIVE EFFECT, BUT AS ALWAYS WEATHER WILL BE THE SINGLE MOST IMPORTANT DETERMINING FACTOR. IN FOREIGN TRADE, IMPORTS OF MACHINERY AND EQUIPMENT ALREADY ORDERED WILL BE HIGH, BUT THE MARKET FOR MUCH OF CHINA'S EXPORTS WILL REMAIN WEAK. AS A RESULT, CHINA IS LIKELY TO BE CAUTIOUS AND SELECTIVE IN ITS PURCHASES OF COMMODITIES AND EQUIPMENT, AND WHERE POSSIBLE THE PRC WILL STRIVE TO CONSERVE FOREIGN EXCHANGE. END SUMMARY.

1. INTRODUCTION: AS THE DEPARTMENT IS AWARE, USLO DOES NOT ATTEMPT DETAILED ANALYSES OF THE PRC ECONOMY. WE HOPE, HOWEVER, THAT IT WILL BE USEFUL TO WASHINGTON AND OUR COLLEAGUES IN HONG KONG TO HAVE THE FOLLOWING IMPRESSIONS, BY MAJOR SECTORS, OF CHINA'S ECONOMIC PERFORMANCE IN 1974 AND THE OUTLOOK FOR 1975.

2. AGRICULTURE: OUR DATA ARE ADMITTEDLY SKIMPY, BUT OUR IMPRESSION IS THAT AGRICULTURE, WHICH PROVIDES MORE THAN 50 PERCENT OF GNP, SCORED A MODEST BUT NOT DRAMATIC SUCCESS IN 1974. THE COUNTRY AGAIN SUFFERED FROM WEATHER PROBLEMS, AS EVIDENCED BY WINTER-SPRING DROUGHT IN THE NORTH, SUMMER FLOODING IN SHANTUNG/KIANGSU, AND MID-FALL TYPHOONS IN KWANGTUNG. WE SUSPECT, HOWEVER, THAT OVERALL THESE WERE NO MORE SERIOUS THAN CHINA HAS EXPERIENCED IN

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AVERAGE YEARS, AND THAT THEIR EFFECTS WERE MITIGATED BY THE CUMULATIVE IMPACT OF WATER CONSERVANCY PROJECTS, SEED SELECTION, AND OTHER IMPROVEMENTS MADE OVER THE YEARS. MOREOVER, THE PEASANTRY WAS LEFT ALONE DURING THE "ANTI LIN PIAO, ANTI CONFUCIUS" (PLPK) CAMPAIGN AND WAS ABLE TO DO ITS WORK WITHOUT EXCESSIVE DISTRACTIONS OR INTERFERENCE. USLO AND OTHER VISITORS TO CGMMUNES NOTED THE STRIKINGLY LOWER LEVEL OF THE CAMPAIGN IN THE COUNTRYSIDE, AND IN SOME PLACES RURAL CADRES BARELY ACKNOWLEDGED ITS EXISTENCE.

3. WE DO NOT KNOW IF CHINA'S WINTER WHEAT CROP INCREASED OVER ITS 1973 RECORD LEVEL, BUT JUDGING FROM LAST SUMMER'S MEDIA CLAIMS OUR IMPRESSION IS THAT THE SUMMER HARVEST AS A WHOLE DID INCREASE. THIS IMPROVED PERFORMANCE IN THE FACE OF NORTH CHINA DROUGHT WAS PROBABLY DUE TO INCREASED ACREAGE PLANTED TO WHEAT AS WELL AS THE WATER CONSERVANCY WORK DONE IN THE NORTH WHICH SEEMS TO BE PAYING TUF. AS FOR EARLY RICE, PROVINCIAL MEDIA STATEMENTS ON THE CROPS MADE CLEAR THAT SIGNIFICANT INCREASES OVER 1973 WERE OBTAINED. RESULTS OF THE IMPORTANT AUTUMN GRAIN HARVEST, HOWEVER, WERE LESS CLEAR. FOREIGN AGRICULTURAL SPECIALISTS WHO TRAVELED WIDELY IN CHINA IN SEPTEMBER BELIEVED THAT FALL HARVEST PROSPECTS APPEARED GOOD, AND STATEMENTS BY PRC OFFICIALS AT ABOUT THE SAME TIME WERE BULLISH. BUT FINAL ANNUAL CLAIMS WERE SLOW TO SURFACE IN THE CENTRAL AND PROVINCIAL MEDIA, AND THEY WERE NOT BROADLY COMPREHENSIVE. IN THE END, NCNA CLAIMED A RECORD CROP FOR THE YEAR, WITH "A FAIRLY BIG INCREASE OVER 1973," BUT IT DID NOT USE PHRASEOLOGY SUGGESTIVE OF A DRAMATIC RISE. IN A CONVERSATION WITH MR. BUSH, IN MID-JANUARY , THE MINISTER OF FOREIGN TRADE LI CH'ANG SAID THAT THE 1974 GRAIN CROP

WAS LARGER (DUO YIDIAR) THAN IN 1973, BUT HE SEEMED TO IMPLY THAT THE INCREASE WAS NOT GREAT.

4. AS FOR THE TOTAL AMOUNT OF THE GRAIN HARVESTED, OUR GUESS IS THAT THE CROP WAS BETWEEN 255 AND 260 MILLION TONS. STATEMENTS BY CHINESE OFFICIALS ON THE SIZE OF THE 1973 HARVEST HAVE VARIED, BUT MOST SEEMED

TO HOVER AROUND THE 250 MILLION TON LEVEL, AND MINISTER LI USED THIS FIGURE IN HIS CONVERSATION WITH MR. BUSH. ASSUMING THE 1973 LEVEL WAS 250 MILLION TONS, WE WERE INCLINED TO ACCEPT A RECENTLY REPORTED STATEMENT BY A MINISTRY OF AGRICULTURE AND FORESTRY OFFICIAL THAT THE 1974 CROP WAS "JUST UNDER" 260 MILLION TONS. THIS FIGURE IS ALSO CONSISTENT WITH A 259-264 RANGE WHICH WE DERIVED ON THE BASIS OF CONFIDENTIAL

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PREMIER CHOU'S REPORT TO THE RECENT NPC.

5. FOR INDUSTRIAL CROPS, THE CHINESE ISSUED FEW CLAIMS; NCNA'S MOST COMPREHENSIVE STATEMENT, ENCOMPASSING COTTON, OIL-BEARING AND SUGAR-BEARING CROPS, SILKWORM COCOONS, BAST FIBER CROPS, TOBACCO AND OTHER COMMODITIES, SAID THAT THESE HARVESTS WERE "EXCELLENT," BUT CLAIMED RECORDS FOR NONE. OUR GENERAL IMPRESSION, BASED ON A READING OF THE NCNA AND OTHER MEDIA CLAIMS, IS THAT 1974 WAS A GOOD BUT NOT EXTRAORDINARY YEAR FOR INDUSTRIAL CROPS. APART FROM WEATHER PROBLEMS, IT MAY BE THAT INCREASED EMPHASIS ON GRAIN PRODUCTION RESULTING IN MORE ACREAGE AND/OR OTHER INPUTS BEING MADE AVAILABLE FOR GRAIN, COULD HAVE LIMITED EXPANSION IN OTHER AREAS.

6. INDUSTRY: IF AGRICULTURE WAS A RELATIVE BRIGHT SPOT IN 1974, INDUSTRIAL PERFORMANCE, THE PETROLEUM SECTOR EXCEPTED,

UNDOUBTEDLY GAVE PEKING LITTLE CAUSE FOR REJOICING. POOR INDUSTRIAL PERFORMANCE WAS EVIDENT FROM A WIDE VARIETY OF SOURCES DURING THE YEAR,

AND WAS FURTHER REFLECTED IN THE 1975 NEW YEAR'S EDITORIAL WHICH WAS NOTABLY DEVOID OF SUBSTANCE WHERE INDUSTRIAL ANHIEVEMENTS WERE CONCERNED. OVER THE YEAR, ONLY PEKING, TIENTSIN AND SHANGHAI PUBLISHED REGULAR CLAIMS INDICATING THAT QUARTERLY INDUSTRIAL TARGETS WERE BEING MET, AND AT THE YEAR'S END ONLY THOSE THREE MUNICIPALITIES, TOGETHER WITH HOPEH AND LIAONING PROVINCES, PUBLISHED CLAIMS INDICATING THAT THEIR 1974 INDUSTRIAL PLANS HAD BEEN FULFILLED OR OVERFULFILLED. SIGNIFICANTLY, NONE OF THE THREE MUNICIPALITIES GAVE PERCENTAGE INCREASES FOR 1973 OVER 1974 (THEY DID THE PRECEDING YEAR) AND IN THE IMPORTANT INDUSTRIAL PROVINCE OF LIAONING NCNA'S YEAR-END CLAIM INDICATED THAT THE RATE OF INDUSTRIAL GROWTH HAD SLOWED FROM 9 PERCENT IN 1972-73 TO SLIGHTLY OVER 6 PERCENT IN 73-74.
HOLDRIDGE

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